

## Message Text

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ACTION SS-25

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC IMMEDIATE 3771

C O N F I D E N T I A L SANTIAGO 1138

EXDIS

E. O. 11652: XGDS 1

TAGS: CI, EFIN, MASS, BDIS

SUBJECT: AMBASSADOR LETELIER AND WASHINGTON TALKS

PASS TREASURY, OPIC AND EXIM

1. SUMMARY. LETELIER TOLD ME IT IS GOC VIEW THAT CHILEAN DELEGATION MADE FIRM PROPOSAL LAST DECEMBER TO USE 1914 TREATY. HE SAID GOC EXPECTS OUR REPLY AS FIRST ORDER OF BUSINESS NEXT THURSDAY. LETELIER ALSO TOUCHED ON FMS DEBT RENEGOTIATION, DEBTS PAYABLE TO AID IN ESCUDOS, OPIC CONVERTIBILITY INSURANCE AND THE CERRO NEGOTIATIONS. HE LEFT THE IMPRESSION OF HAVING TRIED TO WORK OUT AT LEAST SOME PROBLEMS IN HIS CONSULTATIONS HERE IN ORDER TO BE IN A BETTER POSTURE WHEN TALKS START THIS THURSDAY. END SUMMARY.

2. AMBASSADOR LETELIER CALLED ME LAST WEEK AND ASKED TO GET TOGETHER, SO I HAD HIM TO LUNCH SATURDAY NOON ( MARCH 17). THE MOST SIGNIFICANT POINT SETELIER RAISED IN CONNECTION WITH THE NEGOTIATIONS WAS THE 1914 TREATY. HE TALKED ABOUT IT IN TERMS OF A FIRM PROPOSAL MADE BY THE CHILEAN GOVERNMENT LAST DECEMBER. I SAID THAT MY IMPRESSION OF THE DECEMBER TALKS HAD BEEN THAT THE 1914 TREATY HAD BEEN MENTIONED, AS HAD OTHER POSSIBLE ALTERNATIVES FOR A THIRD PARTY MECHANISM, BUT THAT THE CHILEANS HAD NOT PUT FORWARD THE TREATY AS AN OFFICIAL PROPOSAL AT THAT TIME. LETELIER ANSWERED THAT HIS UNDERSTANDING WAS THAT THE TREATY PROPOSAL WAS OFFICIAL, FORMAL AND FIRM. HE SAID IT HAD COST DEARLY TO GET IT THROUGH THE CHILEAN GOVERNMENT  
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AND UP PARTIES. I REMARKED THAT I HAD BEEN ABLE TO SEE FROM PUNTO FINAL THAT THERE WAS OPPOSITION TO IT IN SECTORS

OF THE CHILEAN LEFT. LETELIER WENT ON TO SAY THAT CHILE'S EXPECTATION NEXT THURSDAY IS THAT WE WILL GIVE OUR REACTION AND OUR VIEW OF THIS CHILEAN PROPOSAL AS THE FIRST PIECE OF BUSINESS. HE ADDED THAT CHILE WOULD BE PREPARED TO CONSIDER OTHER POSSIBLE ALTERNATIVES WE MIGHT PROPOSE. HOWEVER, THE 1914 TREATY LOOKED TO THE CHILEANS AS THE ONLY TREATY COMMITMENT AND MECHANISM- IN- BEING THAT SHOWED PROMISE. ( I DID NOT CORRECT LETELIER ON THE POSSIBLE APPLICABILITY OF THE 1929 INTER- AMERICAN ARBITRATION CONVENTION OR THE HAGUE CONVENTION AS I DID NOT WANT TO SEEM TO PUT THEM FORWARD AS FAVORED ALTERNATIVES.) LETELIER ADDED AS AN AFTERTHOUGHT THAT HE DID NOT THINK CHILEAN CONSTITUTIONAL AMENDMENT WOULD BE PRACTICAL. I RECALLED OUR EARLIER DISCUSSION IN WHICH WE HAD TALKED ABOUT THE 1914 TREATY AND MY CONCERN THAT IT DID NOT PROVIDE A SURE OR EXPEDITIOUS AVENUE TO AN ARBITRAL RESOLUTION OF THE ISSUES. I SAID, HOWEVER, THAT I UNDERSTOOD SOME OF THE FACTORS MILITATING IN FAVOR OF THE TREATY, AND WAS NOT TRYING TO EXPRESS A USG VIEW. LETELIER REITERATED THAT THE GOC REGARDS THE TREATY AS BY FAR THE MOST PROMISING POSSIBILITY IF NOT THE ONLY PRESENTLY AVAILABLE ONE, AND REGARDS IT AS A FIRM CHILEAN PROPOSAL. ( I EXPECT WHAT HAS OCCURRED HAS BEEN A CERTAIN AMOUNT OF EX POST FACTO FIRMING- UP OF THE CHILEAN POSITION SINCE DECEMBER. HOW FIRM IT WILL REMAIN IS ANOTHER QUESTION.)

3. LETELIER RAISED THE QUESTION OF FMS DEBT RENEGOTIATION, NOTING THAT WE HAD PROPOSED THE SIGNING OF A MILITARY RENEGOTIATION AGREEMENT WITHOUT DELAY. LETELIER SAID HE HAD BEEN WORKING ON THIS DURING HIS CONSULTATION, AND HOPES TO BE ABLE TO GO AHEAD EVEN BEFORE THURSDAY.

4. LETELIER MENTIONED DEBTS PAYABLE TO AID IN ESCUDOS. HIS IMPRESSION WAS THAT THE ONLY DEBTS AT ISSUE WERE DEBTS WHERE THE CHILEAN GOVERNMENT HAD THE OPTION OF PAYING IN ESCUDOS OR DOLLARS. LETELIER EXPLAINED THAT THE CHILEAN POSITION WAS UNCERTAIN BECAUSE SOME PEOPLE IN THE GOVERNMENT, EVIDENTLY INCLUDING INOSTROZA, WERE CONCERNED THAT CHILE NOT FORECLOSE THE POSSIBILITY OF CALLING THESE DEBTS " DOLLAR DEBTS" AND RENEGOTIATING THE BULK OF THE PAYMENTS. LETELIER INDICATED THAT HE, HIMSELF,

THOUGHT THAT THE CHILEAN WOULD BE WELL ADVISED TO GO AHEAD  
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AND PAY THE ESCUDOS. I NOTED MY UNDERSTANDING THAT THE CHILEAN GOVERNMENT WAS EVEN DEFAULTING ON DEBTS PAYABLE ONLY IN ESCUDOS, WITH NO OPTION. LETELIER WAS SOMEWHAT RELUCTANT TO BELIEVE THIS, SO I TELEPHONED ACTING AID DIRECTOR BILLER AND VERIFIED THE FACTS. LETELIER NOED THIS.

5. IN CONNECTION WITH ESCUDO DEBTS, I TOLD LETELIER THAT SOME CENTRAL BANK OFFICIALS HAVE INTIMATED THAT THE CHILEAN MOTIVATION WAS TO OBLIGE US TO IMPORT ADDITIONAL DOLLARS IN ORDER TO MEET

OUR ESCUDO NEEDS. IN THIS CONNECTION I REMARKED THAT THE EXCHANGE RATE HAS BECOME AN INCREASING PROBLEM, AS COSTS ARE RISING SO MUCH FASTER THAN THE EXCHANGE RATE. I NOTED THAT VARIOUS PUBLIC AND PRIVATE AMERICAN ENTITIES DOING COOPERATIVE WORK IN CHILE, SUCH AS CERRO TOLOLO, IAGS, NASA AND IN FACT THE STATE DEPARTMENT ITSELF, WERE ENCOUNTERING INCREASING BUDGET PROBLEMS. I WENT ON TO SAY, HOWEVER, THAT I WAS NOT MAKING A REPRESENTATION IN THIS REGARD, AS I REALIZED THIS WAS PART OF A MUCH LARGER QUESTION OF ECONOMIC POLICY. I DID WANT THE AMBASSADOR TO REALIZE, HOWEVER, THAT COOPERATIVE PROGRAMS WERE EXPERIENCING STRINGENCIES.

6. LETELIER RAISED THE QUESTION OF LOANS WHERE OPIC INSURES AGAINST INCONVERTIBILITY, DESCRIBING THE ARAUCO/ BANK OF AMERICA SITUATION QUITE ACCURATELY. LETELIER ACKNOWLEDGED THAT THE CHILEAN POSITION WAS NOT STRONG IN DENYING THE ESCUDOS TO US - IN LIGHT OF OUR TREATY - AND SAID HE INTENDED TO RAISE THE QUESTION WITH INOSTROZA " TOMORROW" ( SUNDAY ). I ANSWERED THAT I BELIEVED THE RECENT CHILEAN DEVALUATION MAY HAVE AFFECTED THIS SITUATION. A WITHDRAWAL OF ESCUDOS PAID TO THE CENTRAL BANK AT 40 TO ONE, FOR PAYMENT OF DEBTS AT A CURRENT RATE OF 70 TO ONE, WOULD REPRESENT A LOSS OF ALMOST HALF THEIR VALUE. I NOTED MY IMPRESSION THAT CELULOSA ARAUCO HAD PAID THE ESCUDOS ON THE BASIS OF SOME SORT OF CENTRAL BANK COMMITMENT THAT THEY WOULD BE CONVERTED TO DOLLARS AT 40 TO ONE. ( NOTWITHSTANDING STATE' S 045323, I DID NOT THINK IT ADVISABLE TO LEAVE LETELIER WITH THE IMPRESSION HE COULD EASILY SOLVE THE CELULOSA ARAUCO PROBLEM - SIMPLY BY TALKING INOSTROZA INTO RELEASING SOME OF THE ESCUDOS ON DEPOSIT.)

7. LETELIER ALSO TOUCHED ON THE CERRO NEGOTIATIONS ( REPORTED SEPARATELY IN SANTIAGO 1113.). OVERALL, HE GAVE ME THE IMPRESSION THAT IN HIS CONSULTATIONS HERE HE HAD BEEN TRYING TO CONFIDENTIAL

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GET A NUMBER OF PROBLEMS SOLVED OR ON THE WAY TO SOLUTION, IN HOPE OF BEING IN THE BEST POSTURE POSSIBLE WHEN WE MEET THIS THURSDAY.

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